STATE OF CALIFORNIA
CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

In the Matter of: Rulemaking: Establishment of Target Reserve Level for the California Power Authority Investment Plan	Docket 2002-07-01

COMMENTS OF THE
INDEPENDENT ENERGY PRODUCERS ASSOCIATION ON THE DRAFT DECISION FOR PUBLIC REVIEW AND COMMENT

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October 15, 2002

STATE OF CALIFORNIA
CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

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COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION ON THE DRAFT DECISION FOR PUBLIC REVIEW AND COMMENT

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the California Power Authority's (CPA) Draft Decision Rulemaking (Docket 2002-07-01) regarding Establishment of a Target Reserve Level (TRL) for the California Power Authority Investment Plan (dated September 16, 2002).[1] IEP represents independent power producers and energy marketers, which control or operate over 20,000 MWs of installed capacity in the State of California, including non-renewable, renewable, and cogeneration facilities.

In its Initial Comments[2], IEP offered a number of observations intended to help guide the CPA's efforts in this Rulemaking and is generally pleased that the Draft Decision incorporates in large part IEP's recommendations.

IEP is particularly supportive of the two seminal perspectives embedded in the Draft Decision. First, is recognition that primary responsibility for development and

[1] The Draft Decision included a suggested date for Comment of October 11; with the permission of the CPA received by telephone IEP is submitting these Comments today.
[2] Initial Comments of Independent Energy Producers Association (dated September 5, 2002).

achievement of appropriate reserve margins resides with the load serving entities and the agencies with regulatory and ratemaking authority over them:

> The Power Authority recognizes that ultimate responsibility for setting procurement levels and plans rests with the regulatory authority which governs each utility, the Public Utilities Commission (PUC) for the investor-owned utilities (IOUs), governing boards and city councils for municipal utilities (Munis) and so forth. While this recommendation is not binding on any regulatory body, the Power Authority hopes that the reasoning and information in this rulemaking will offer helpful guidance to those regulatory bodies when considering procurement policies and deciding whether or how much to differ from these recommendations based on their particular circumstances. [3]

As the CPA is aware, the California Public Utilities Commission (CPUC) is well into a proceeding directed at repositioning investor-owned utilities within its jurisdiction to resume responsibility for new generation procurement, including institutionalizing a minimum renewable energy procurement target which is the subject of a current procurement solicitation.

Second, the Draft Decision also correctly underscores the critical point that reserve margin criteria are as or more dependent on the assumptions and expectations of existing and probable generation availability as on the target itself:

> In considering this recommendation, it has become clear that the process and development of the number is actually more important than the number itself. Variations to this recommendation may be appropriate for any given utility based on the nature of the resources, the fuel source, the age and historic performance of the equipment, contract terms and conditions, desired reliability levels, risk tolerance, level of capacity actually under contract vs. capacity acquired in spot transactions and other reasons. [4]

IEP could not agree more and anticipates as this Rulemaking proceeds that significant attention will be paid to these factors; IEP further expects, and shares the hope of the CPA, that inter-agency comity and cooperation will contribute to the development

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[3] Draft Decision at 2-3.
[4] Draft Decision at 2.

of consistent standards. Of specific interest in the determination of reserve targets should be recognition of the extraordinary performance from non-utility owned generation stations the state has experienced over the past recent years. As shown in Attachment A to these comments, the growth in generation output from merchant plants has completely outstripped municipal and other sources, producing at levels approximately sixty percent higher than historical experience under utility ownership. Rational and considered policies respecting reserve margin targets, and reestablishment of a stable regulatory environment in which these generation stations operate, will be critical if anything approaching these spectacular production levels are to remain realistically viable.

IEP reiterates its general support of the perspectives being brought to bear in the Draft Decision and fully expects to participate helpfully as the Rulemaking progresses.

Dated: October 15, 2002

Respectfully submitted,

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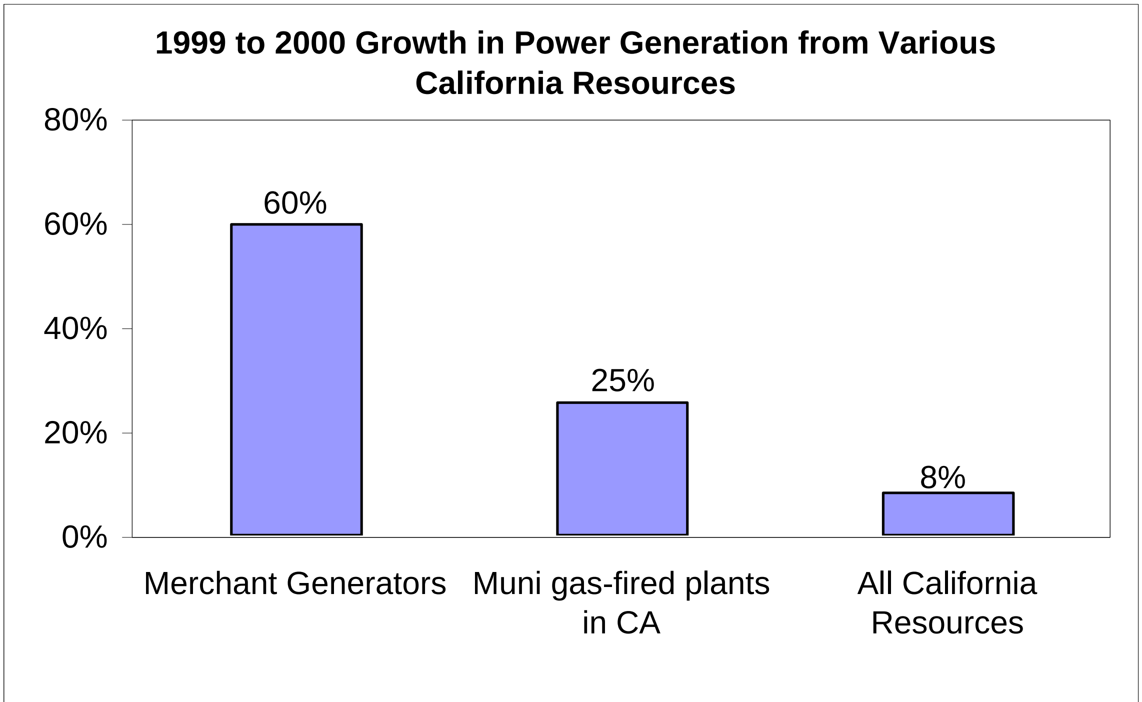
Attachment A



Sources and notes:

* Operation data from EPA Clean Air Market Programs, Emissions Data & Compliance Reports for 1999 and 2000 . These data sets do not include small combustion turbines. All California resources from EIA.

* California's merchant generators are the divested generation resources owned by Mirant, AES/Williams, Dynegy, Duke and Reliant for which EPA Emissions Data & Compliance Reports are available.

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